

FEDERAL RESERVE SYSTEM

Sky Financial Group, Inc.
Bowling Green, Ohio

Order Approving the Acquisition of a Financial Holding Company and the Merger of Banks

Sky Financial Group, Inc. (“Sky Financial”), a financial holding company within the meaning of the Bank Holding Company Act (“BHC Act”), has requested the Board’s approval under section 3 of the BHC Act (12 U.S.C. § 1842), to acquire Second Bancorp, Incorporated (“Second Bancorp”) and its subsidiary bank, The Second National Bank of Warren (“Second Bank”), both in Warren, Ohio. Sky Financial’s subsidiary state member bank, Sky Bank, Salineville, Ohio, has requested the Board’s approval under section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. § 1828(c)) (the “Bank Merger Act”) to merge with Second Bank, with Sky Bank as the surviving bank. In addition, Sky Bank has requested the Board’s approval under section 9 of the Federal Reserve Act (“FRA”) (12 U.S.C. § 321) to establish branches at the locations of Second Bank’s branches.¹

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in accordance with the BHC Act, the Bank Merger Act, and the Board’s Rules of Procedure (12 C.F.R. § 262.3(b)) in the Federal Register (69 Federal Register 17,416 (2004)) and locally. As required by the Bank Merger Act, reports of the competitive effects of the merger were requested from the United States Attorney General and the appropriate banking agencies. The time for filing comments has

¹ These branches are listed in Appendix A.

expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 the BHC Act, the Bank Merger Act, and the FRA.

Sky Financial, with total consolidated assets of approximately \$12.9 billion, operates branches in Ohio, Pennsylvania, Michigan, Indiana, and West Virginia. Sky Financial controls the tenth largest insured depository institution in Ohio, controlling deposits of approximately \$6.1 billion, which represents approximately 2.9 percent of total deposits in insured depository institutions in the state (“state deposits”).² Second Bancorp, with total consolidated assets of approximately \$2.1 billion, controls the 15th largest insured depository institution in Ohio, controlling approximately \$1.2 billion in deposits, which represents less than 1 percent of state deposits. On consummation of the proposal, Sky Financial would control the ninth largest insured depository institution in Ohio, controlling deposits of approximately \$7.3 billion, which represents 3.4 percent of state deposits.

Competitive Considerations

Section 3 of the BHC Act and the Bank Merger Act prohibit the Board from approving a proposal that would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking in any relevant banking market. The BHC Act and the Bank Merger Act also prohibit the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant banking market, unless the Board finds that the anticompetitive effects of the proposal clearly are outweighed in the public

² Asset data are as of December 31, 2003, and deposit data are as of June 30, 2003. In this context, the term “insured depository institution” includes insured commercial banks, savings associations, and savings banks.

interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.³

Sky Financial and Second Bancorp compete directly in the Akron, Ashtabula, Canton, Cleveland, and Youngstown-Warren banking markets in Ohio.⁴ The Board has reviewed carefully the competitive effects of the proposal in each of these banking markets in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the markets, the share of total deposits in depository institutions in the markets (“market deposits”) controlled by Sky Financial and Second Bancorp,⁵ the concentration level of market deposits and the increase in this level as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Merger Guidelines (“DOJ Guidelines”),⁶ and other characteristics of the markets.

³ 12 U.S.C. § 1842(c)(1).

⁴ These banking markets are described in Appendix B.

⁵ Market share data are as of June 30, 2003, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Board 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

⁶ Under the DOJ Guidelines, 49 Federal Register 26,823 (1984), a market is considered moderately concentrated if the post-merger HHI is between 1000 and 1800 and is considered highly concentrated if the post-merger HHI is more than 1800. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is

Several factors indicate that the likely effect of consummation of this proposal on competition in these markets would not be significantly adverse.⁷ Consummation of the proposal would be consistent with Board precedent and the DOJ Guidelines in the Akron, Canton, and Youngstown-Warren banking markets. These banking markets would remain moderately concentrated, and the increase in concentration in the Akron and Canton markets is small. The Cleveland market would remain highly concentrated on consummation, but the HHI would increase by only one point. In addition, more than ten competitors would remain in each of these markets.

The Ashtabula market would exceed DOJ Guidelines after consummation. Sky Financial would become the largest depository institution in the market and the HHI would increase by 289 points to 1,917. Although the Ashtabula market would become highly concentrated, numerous competitors would remain in the market. Of the nine remaining firms in the Ashtabula market, three firms, in addition to Sky Financial, would each control 18 percent or more of market deposits. The Ashtabula market also is attractive to entry, as demonstrated by the de novo entry of a bank there within the past year.

The Department of Justice has conducted a detailed review of the competitive effects of the proposal and has advised the Board that

at least 1800 and the merger increases the HHI by more than 200 points. The Department of Justice has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

⁷ The effects of the proposal on the concentration of banking resources in these markets are described in Appendix C.

consummation of the proposal would not have a significantly adverse effect on competition in the Akron, Ashtabula, Canton, Cleveland, or Youngstown-Warren banking markets or any other relevant banking market. The appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all the facts of record, the Board concludes that consummation of the proposal is not likely to have a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market and that competitive considerations are consistent with approval.

Financial, Managerial, and Other Considerations

Section 3 of the BHC Act and the Bank Merger Act require the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in the proposal. The Board has considered carefully these factors in light of all the facts of record, including reports of examination, other confidential supervisory information received from the primary federal banking agency that supervises each institution, and information provided by Sky Financial. Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of Sky Financial and Second Bancorp are consistent with approval, as are the other supervisory factors required to be considered under the BHC Act. In addition, considerations related to the convenience and needs of the communities to be served, including the records of performance of the relevant insured depository

institutions under the Community Reinvestment Act (“CRA”), are consistent with approval.⁸

As noted above, Sky Bank also has applied under section 9 of the FRA to establish branches at the locations of Second Bank’s branches in Ohio. The Board has considered the factors it is required to consider under section 9 of the FRA and, for the reasons discussed in this order, finds those factors to be consistent with approval.

Conclusion

Based on the foregoing and in light of all the facts of record, the Board has determined that the applications should be, and hereby are, approved. In reaching this conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act, the Bank Merger Act, the FRA, and other applicable statutes. The Board’s approval is specifically conditioned on compliance by Sky Financial with all the representations and commitments made to the Board in connection with the applications and the receipt of all other required regulatory approvals. These representations, commitments, and conditions are deemed to be conditions

⁸ 12 U.S.C. § 2901 *et seq.* The Interagency Questions and Answers Regarding Community Reinvestment provides that an institution’s most recent CRA performance evaluation is an important consideration in the applications process because it represents a detailed on-site evaluation of the institution’s overall record of performance under the CRA by its appropriate federal supervisor. 66 Federal Register 36,620 and 36,639 (2001). Sky Bank received a “satisfactory” rating at its most recent CRA performance evaluation by the Federal Reserve Bank of Cleveland, as of October 14, 2003. Second Bank received a “satisfactory” rating at its most recent CRA performance evaluation by the Office of the Comptroller of the Currency, as of June 26, 2000. Sky Trust, National Association, Pepper Pike, Ohio, is a special-purpose bank that is not subject to the CRA.

imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The transaction shall not be consummated before the fifteenth calendar day after the effective date of this order or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Cleveland, acting pursuant to delegated authority.

By order of the Board of Governors,⁹ effective May 24, 2004.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

⁹ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

APPENDIX A

Branches in Ohio to be Established by Sky Bank

Akron

76 South Main Street, Suite 100

Ashtabula

4366 Main Avenue

Aurora

215 West Garfield Road

Beachwood

25201 Chagrin Boulevard, Suite 120

Canfield

6515 Tippecanoe Road

Canton

5310 Fulton Road, NW

Conneaut

328 Main Street

Cortland

259 South High Street

Fairlawn

3737 West Market Street

Garrettsville

8045 State Street

Girard

29 East Liberty Street

Hubbard

24 West Liberty Street

Hudson

5801 Darrow Road
3477 Massillon Road

Jefferson

36 West Jefferson Street

Kent

1590 South Water Street

Lordstown

6749 Tod Avenue, SW

Medina

1065 North Court Street

Newton Falls

215 East Broad Street

Niles

5555 Youngstown-Warren Road

North Olmstead

26642 Brookpark Road Extension

Poland

2 South Main Street

Ravenna

165 North Chestnut Street

Rock Creek

3273 Main Street

Streetsboro

1190 State Route 303

Twinsburg

10071 Darrow Road

Warren

2107 Elm Road, NE
4349 Mahoning Avenue, NW
108 Main Avenue, SW
525 Niles-Cortland Road, SE
2595 Parkman Road, NW

Wooster

445 West Milltown Road

APPENDIX B

Ohio Banking Market Definitions

Akron

The southern two-thirds of Summit and Portage Counties; the Medina County townships of Sharon, Homer, Harrisville, Westfield, Guilford, and Wadsworth; Smith township in Mahoning County; Lawrence township and the western half of Lake township in Stark County; and Milton and Chippewa townships in Wayne County.

Ashtabula

Ashtabula County.

Canton

Stark County, excluding Lawrence township and the western half of Lake township; Carroll County; Smith township in Mahoning County; and Lawrence and Sandy townships in Tuscarawas County.

Cleveland

Cuyahoga, Lake, Lorain, and Geauga Counties; Sagamore Hills, Northfield Center, Twinsburg, Richfield, Boston, and Hudson townships in Summit County; Medina County, excluding Homer, Harrisville, Westfield, Guilford, Wadsworth, and Sharon townships; Aurora and Streetsboro townships in Portage County; and the City of Vermillion in Erie County.

Youngstown-Warren

Mahoning County, excluding Smith township; Trumbull County, excluding Brookfield and Hartford townships; and Columbiana Village and Fairfield township in Columbiana County.

APPENDIX C

Ohio Banking Markets in which Sky Financial and Second Bancorp Compete Directly

Akron

Sky Financial operates the 19th largest insured depository institution in the Akron banking market, controlling approximately \$42 million in deposits, representing less than 1 percent of market deposits. Second Bancorp operates the 12th largest insured depository institution in the market, controlling \$134 million in deposits, representing 1.7 percent of market deposits. On consummation of the proposal, Sky Financial would operate the tenth largest insured depository institution in the market, controlling deposits of approximately \$176 million, representing approximately 2.3 percent of market deposits. The HHI would increase 2 points to 1,390. Twenty-four competitors would remain in the market.

Ashtabula

Sky Financial operates the fourth largest insured depository institution in the Ashtabula banking market, controlling \$118.5 million in deposits, representing 12.2 percent of market deposits. Second Bancorp operates the fifth largest insured depository institution in the market, controlling \$115.7 million in deposits, representing 11.9 percent of market deposits. On consummation of the proposal, Sky Financial would operate the largest insured depository institution in the market, controlling deposits of approximately \$234.2 million, representing approximately 24.2 percent of market deposits. The HHI would increase 289 points to 1,917. Eight competitors would remain in the market.

Canton

Sky Financial operates the sixth largest insured depository institution in the Canton banking market, controlling \$368.9 million in deposits, representing 7.7 percent of market deposits. Second Bancorp operates the 17th largest insured depository institution in the market, controlling \$13.8 million in deposits, representing less than 1 percent of market deposits. On consummation of the proposal, Sky Financial would remain the sixth largest insured depository institution in the market, controlling

deposits of approximately \$382.7 million, representing approximately 8 percent of market deposits. The HHI would increase 4 points to 1,434. Sixteen competitors would remain in the market.

Cleveland

Sky Financial operates the tenth largest insured depository institution in the Cleveland banking market, controlling approximately \$1.1 billion in deposits, representing 1.8 percent of market deposits. Second Bancorp operates the 17th largest insured depository institution in the market, controlling approximately \$185 million in deposits, representing less than 1 percent of market deposits. On consummation of the proposal, Sky Financial would remain the tenth largest insured depository institution in the market, controlling deposits of approximately \$1.2 billion, representing approximately 2.1 percent of market deposits. The HHI would increase 1 point to 1,926. Thirty-seven competitors would remain in the market.

Youngstown-Warren

Sky Financial operates the largest insured depository institution in the Youngstown-Warren banking market, controlling \$773.9 million in deposits, representing 14.5 percent of market deposits. Second Bancorp operates the fourth largest insured depository institution in the market, controlling \$702.7 million in deposits, representing 13.2 percent of market deposits. On consummation of the proposal, Sky Financial would operate the largest insured depository institution in the market, controlling deposits of approximately \$1.6 billion, representing approximately 27.7 percent of market deposits. The HHI would increase 383 points to 1,491. Eleven competitors would remain in the market.